Committee on Ways and Means

H.R. 2596, the *Health Savings and Affordability Act of 2003*
Summary

- The proposal creates new personal savings accounts, to help pay unreimbursed medical expenses on a tax-preferred basis. There are two types of accounts.

  (1) Health Savings Accounts (HSAs) may be established by any individual who is covered by a health plan with an annual deductible of at least $1,000 for self-coverage and $2,000 for family coverage.

  (2) Health Savings Security Accounts (HSSAs) may be established by any individual who is either uninsured or is covered by a health plan with an annual deductible of at least $500 for self coverage and $1,000 for family coverage.

- Annual contribution limits:

  (1) Health Savings Accounts: The annual contribution limit is 100% of the deductible under the health plan. This may be between $1,000 - $2,500 (self-coverage policies) and $3,350 - $6,150 (family policies).

  (2) Health Savings Security Accounts: For individuals with self-coverage policies and uninsured individuals without dependents, the annual contribution limit is $2,000 (this amount phases down if the individual's income exceeds $75,000). For individuals with family coverage policies and uninsured individuals with dependents, the annual contribution limit is $4,000 (this amount phases down if the individual's income exceeds $150,000). Individuals age 55 and older can make additional "catch-up contributions" to an HSSA. The additional contribution is $500 in 2004 and will gradually increase to $1,000 by 2009.

- Contributions can be received from the following sources:

  - Individuals,
  - Employers,
  - Rollovers from Flexible Spending Accounts (up to $500 annually), and
  - Family members (for HSSAs only).

- Tax Treatment:

  - Individual contributions are tax-deductible, even if the taxpayer does not itemize.
  - Employer contributions are tax-free.
  - Family member contributions are made on an after-tax basis.

- Investment earnings accrue tax free.
- Distributions are tax-free if used for "qualified" medical expenses.

- Qualified medical expenses include:

  - Amounts paid for the diagnosis, cure, mitigation, treatment or prevention of disease,
  - Prescription drugs,
  - Qualified long-term care services and long-term care insurance,
  - Continuation coverage required by Federal law,
  - Health insurance for the unemployed,
  - Health insurance for individuals who are otherwise uninsured (HSSAs only), and
  - Retiree health insurance after age 65, including Medicare associated expenses (for HSSAs only).

- Distributions made for any other purpose are subject to income tax and a 15% penalty. The 15% penalty may be waived in certain circumstances.

- The proposal modifies the "use-it-or-lose-it" rules for Flexible Spending Accounts by allowing up to $500 of unused balances to be: (1) carried forward in the Flexible Spending Account or (2) transferred to an HSA or HSSA. Individuals who are not eligible to contribute to an HSA or HSSA may transfer up to $500 to a pension plan.

- The proposal clarifies that payments to medical service providers through the use of debt, credit, and stored-value cards do not create new reporting requirements for employers.